

**REPORT ON THE AUDIT OF THE
MCCRACKEN COUNTY FISCAL COURT
For The Fiscal Year Ended June 30, 2005**

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INDEPENDENT AUDITOR'S REPORT

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Danny Orazine, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCracken County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of McCracken County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCracken County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2005, on our consideration of McCracken County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the McCracken County, Kentucky's basic financial statements. The accompanying supplemental information and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
October 12, 2005

MCCRACKEN COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Danny B. Orazine	County Judge/Executive
Zana Renfro	Commissioner
Bob Grimm	Commissioner
Ronnie Freeman	Commissioner

Other Elected Officials:

Dan Boaz	County Attorney
Cliff Gill	Jailer
Jeff Jerrell	County Clerk
Mike Lawrence	Circuit Court Clerk
Frank Augustus	Sheriff
Nancy Bock	Property Valuation Administrator
Dan Sims	Coroner

Appointed Personnel:

Steve Doolittle	County Administrator
Audra Herndon	County Treasurer
Angie Brown	Finance Officer
Owen Lynn	Occupational Tax Collector
Shirley Valerius	Jail Administrative Assistant

Management Discussion and Analysis

This section of McCracken County's financial report presents our discussion and analysis of the County's financial performance for the fiscal year ended June 30, 2005. This should be read in conjunction with the financial statements, which follow this section.

Financial Highlights

- The County issued \$6,025,000 in Revenue Refunding Bonds (2004 Series) to advance refund \$5,950,000 of outstanding 1995 Series bonds. Total debt service payments over the next 22 years will be reduced by \$624,251, generating an economic gain (difference between the present values of the Debt Service payments on the old and new debt) of \$424,690.
- The County expended \$775,447 in federal grant funds during the fiscal year. This includes \$601,691 from the Department of Homeland Security and \$108,375 of a \$954,000 Community Development Block Grant passed through to the Easter Seals West Kentucky.
- The construction of a 60,000 square foot building leased by the City and County to the McCracken County Industrial Development Authority was completed, and the building was put into service on September 1, 2005.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the County's basic financial statements. These statements consist of the government-wide financial statements, fund financial statements, and notes to the financial statements. This financial report also includes required supplementary information, which provides additional insight toward the understanding of the financial condition of McCracken County.

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole. Both long-term and short-term information is provided to give the reader a view of the County's overall financial status. There are separate columns for the governmental and business-like activities, and they include all funds of the reporting entity except for fiduciary funds. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide statements can be found on pages 15-16 of this report.

Fund Financial Statements: Fund financial statements provide more detail than the government-wide statements by presenting the individual components of the County's government. Activities of the County are separated into funds, which are separate account classifications with a self-balancing set of accounts. These funds are grouped into three fund types: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Governmental fund statements emphasize near-term inflows and outflows of available resources and are reported using the current financial resources measurement focus and the modified cash basis of accounting. The County has twelve governmental funds, which are used to report most of the County's basic services. There are seven major funds, which have been separately reported in the governmental fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The major funds are the General Fund, Road Fund, Jail Fund, Sheriff's Fund, Federal Grant Fund, Debt Service Fund, and Capital Projects Fund. The remaining funds have been presented collectively in the governmental fund financial statements. The individual information for these funds is presented in the combining statements in the Supplementary Information section of the report.

Proprietary funds are broken down into two fund types, which are enterprise funds and internal service funds. Enterprise funds are used to report activities in which fees are charged to external users in exchange for goods or services (business-like activities). The jail canteen fund is an enterprise fund and is the only proprietary fund of the County. The jail canteen fund statements are presented using the same measurement focus and basis of accounting as in the government-wide statements.

Fiduciary Funds are used to account for assets held by the County as an agent for others. Fiduciary Fund activity is not included in the government-wide financial statements because the County cannot use the assets for its operations. The County has five fiduciary funds: Car Rental Tax Fund, Unclaimed Monies Fund, Jail Inmate Fund, Transient Room Tax Fund, and the Industrial Development Authority Construction Fund. The assets and corresponding liabilities of these funds are reported in the Statement of Fiduciary Net Assets. The fund financial statement can be found on page 24 of this report.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements. They provide additional information and expanded detail that is essential to obtaining a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 25-48 of this report.

Required Supplementary Information: This Management Discussion and Analysis and the Budgetary Comparison Schedules for the County's major funds represent financial information that is required by the GASB. This information provides the users of this report with additional information that supplements the basic financial statements. Required supplementary information can be found on pages 49-69 of this report.

Other Supplementary Information: Optional financial information is included in this part of the report. The combining statements for non-major funds, which are presented as a single column in the fund financial statements, can be found on pages 70-71.

Government-Wide Financial Analysis

Net Assets. Table 1 below provides a comparison of the Statement of Net Assets from 2004 to 2005. The County's combined net assets fell by \$1,202,093 or 2.3%. Net assets continue to decrease each year as annual depreciation expense accumulates on capital assets. Depreciation expense for fiscal year 2005 totaled \$2,944,772. In addition, there was a significant increase in public safety expenses for which there was no corresponding increase in revenue.

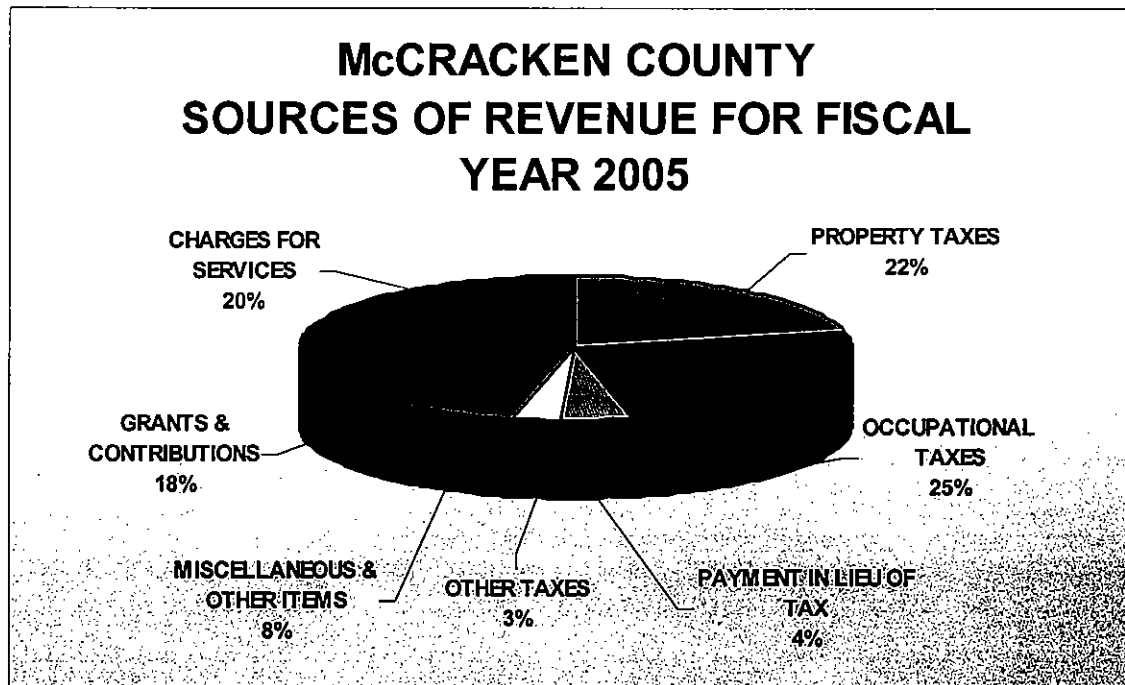
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 10,331,283	\$ 11,000,897	\$ 2,364	\$ 13,967	\$ 10,333,647	\$ 11,014,864
Capital assets	56,027,883	56,680,403	4,509	14,018	56,032,392	56,694,421
Total assets	66,359,166	67,681,300	6,873	27,985	66,366,039	67,709,285
Long-term liabilities	14,524,815	15,013,915			14,524,815	15,013,915
Other liabilities	1,708,129	1,366,230	21,425	15,377	1,729,554	1,381,607
Total liabilities	16,232,944	16,380,145	21,425	15,377	16,254,369	16,395,522
Net assets:						
Invested in capital assets, net of related debt	47,826,284	48,025,403	4,509	7,296	47,830,793	48,032,699
Restricted	394,911	1,768,079	-	-	394,911	1,768,079
Unrestricted	1,905,027	1,507,673	(19,061)	5,312	1,885,966	1,512,985
Total net assets	\$ 50,126,222	\$ 51,301,155	\$ (14,552)	\$ 12,608	\$ 50,111,670	\$ 51,313,763

Total assets decreased by \$1,343,246 from the prior year. As referred to above, capital assets continue to decrease each year due to the accumulation of annual depreciation expense. A decrease was also seen in current assets, which is attributable to the expenditure of \$563,873 in debt service reserve funds for the advance refunding of the County's courthouse addition bonds. Increases were seen in accounts and notes receivable due to outstanding grant reimbursements and new notes receivable from the City of Paducah.

Changes in Net Assets.

Figure 1 below categorizes the sources of funds for fiscal year 2005.

Figure 1



In fiscal year 2005, the County generated 54% of its revenue from taxes. Occupational tax, which includes both payroll tax and net profits tax, is the largest source of income to the County, totaling approximately \$4.6 million. It should be noted that only 22% of revenue was derived from property taxes. Although this is in alignment with the rest of the state, Kentucky and its local governments are limited in their dependence on property tax revenues compared to other state and local governments throughout the country. This is due primarily to the so-called House Bill 44¹, reflecting Kentucky law that limits increases in property tax revenue. While the statute allows the County to increase its revenue from property taxes by up to 4 percent, given the intense interest in the tax, the County has taken the “compensating rate”² for eight out of the past ten years. This tax rate, once imposed, produces the same revenue as the previous year. According to a study done by the Kentucky Long-Term Policy Research Center in 2001, Kentucky’s

¹ House Bill 44 of the 1979 special session of the Kentucky Legislature that amended KRS 132.

² “Compensating tax rate” means that rate which, rounded to the next higher one-tenth of one cent (\$0.001) per one hundred dollars (\$100) of assessed value and applied to the current year’s assessment of the property subject to taxation by a taxing district, excluding new property and personal property, produces an amount of revenue approximately equal to that produced in the preceding year from real property. However, in no event shall the compensating tax rate be a rate which, when applied to the total current year assessment of all classes of taxable property, produces an amount of revenue less than was produced in the preceding year from all classes of taxable. For purposes of this subsection, “property subject to taxation” means the total fair cash value of all property subject to full local rates, less the total valuation exempted from taxation by the homestead exemption provision of the Constitution and the difference between the fair cash value and agricultural or horticultural value of agricultural or horticultural land.

state and local governments combined collected only 17.2% of its revenue from property taxes.³ The nation as a whole derives 30% of its revenue from property taxes and appears to be less reliant on occupational taxes. This data indicates the County's revenue flow is subject to volatility and fluctuations closely follow changes in the local economy.

Table 2 below shows the relatively flat nature of property taxes.

Table 2 McCracken County Property Tax Receipts FY 2001-2005			
FY	Property Tax Receipts	Total Revenue	
2001	\$ 3,432,342	\$	19,298,243
2002	\$ 3,649,586	\$	17,894,240
2003	\$ 3,735,258	\$	17,895,706
2004	\$ 3,481,039	\$	17,481,894
2005	\$ 3,929,094	\$	18,264,371

Unlike property taxes which net a predictable stable sum from year to year nearly regardless of the economy, local occupational (income) based taxes can decrease rapidly following an economic downturn. Reductions in receipts will be seen within a quarter of the downturn. Economic events such as the closing of the USEC plant, which could occur within the next ten years, are certain to have an immediate and significant effect on the County's budget. Given Kentucky's design for county revenues, McCracken County has invested significant cash resources to development of the local economy expressed primarily through a variety of incentive strategies designed to attract new (or retain) employment in Paducah and McCracken County.

Table 3 below shows the County's investment in economic development over the past five years.

Table 3 McCracken County Economic Development Expenditures FY 2001-2005		
FY	Economic Development Budget	
2001	\$	100,000
2002	\$	100,000
2003	\$	150,000
2004	\$	200,000
2005	\$	450,000

³ Financing State and Local Government: Future Challenges and Opportunities. Kentucky Long-Term Policy Research Center. 2001 <http://www.kltprc.net/studies1.htm>.

Table 4 below provides a comparison of the County's operating results to the prior year.

Table 4

**McCracken County
Changes in Net Assets
(Governmental Activities Only)**

	2005	2004	Increase/ (Decrease)	% Change
Program Revenues				
Charges for Services	\$ 3,612,911	\$ 3,068,655	\$ 544,256	17.7%
Grants & Contributions	3,301,512	3,462,965	(161,453)	-4.7%
General Revenues				
Taxes	9,808,471	9,433,609	374,862	4.0%
Miscellaneous & Other	1,484,872	1,462,290	22,582	1.5%
Total Revenue	\$ 18,207,766	\$ 17,427,519	\$ 780,247	
Expenses:				
General Government	\$ 13,202,297	\$ 12,660,703	\$ 541,594	4.3%
Public Safety	3,237,216	2,512,030	725,186	28.9%
Health & Sanitation	260,563	220,576	39,987	18.1%
Social Services	470,045	980,751	(510,706)	-52.1%
Recreation & Culture	443,867	485,158	(41,291)	-8.5%
Highways & Streets	1,167,155	1,143,632	23,523	2.1%
Interest on Long-Term Debt	601,556	525,933	75,623	14.4%
Total Expenses	\$ 19,382,699	\$ 18,528,783	\$ 853,916	

Total revenue increased by \$780,247 from 2004. The most significant area of change in revenue from the prior year was seen in charges for services. State prisoner payments increased by approximately \$480,000 due to a rise in the state reimbursement rate from \$27.51 to \$30.00 in addition to a general increase in state prisoner population. Animal control services for the County and City of Paducah merged in August of 2004 and became a function of the County. Through an inter-local agreement, the City has agreed to reimburse the County for its proportionate share of expenses, which account for over half of the total cost of operations. Animal control reimbursement revenue for 2005 totaled \$74,524.

Total expenses increased by \$853,916 from 2004. Elevated general government expenditures were partially attributable to approximately \$225,000 additional funds needed in 2005 to accommodate the increase in the County's portion of retirement contributions. The County also contributed approximately \$200,000 to the Industrial Development Authority (IDA) for the construction of a new speculative building in the Industrial Park West. (This figure does not include the expenses incurred on behalf of the IDA, which were passed through a fiduciary fund.) Social services expenses decreased by over \$500,000 from the prior year due to grant contracts that were completed in the prior year. The considerable increase in public safety expenses was primarily due to the growing cost of jail operations. The public safety portion of jail expenses increased by over \$600,000 from the prior year. See the fund statement analysis below for an expanded discussion of jail operations.

Fund Statement Analysis

Combined fund balances for the County's governmental funds totaled \$6,023,271 at June 30, 2005, a 6.5% decrease from prior year. Table 5 provides a prior year comparison of fund balances for each of the County's major funds and the other funds combined.

Table 5

McCracken County Fund Balance Comparison Governmental Funds

	Fund Balance		Increase/ Decrease
	2005	2004	
General Fund	\$ 5,823,623	\$ 5,722,114	\$ 101,509
Road Fund	274,095	188,413	85,682
Jail Fund	(30,175)	(44,824)	14,649
Sheriff Fund	14,566	(30,355)	44,921
Federal Grant Fund	-	-	-
Debt Service Fund	-	564,139	(564,139)
Capital Projects Fund	(90,642)	-	(90,642)
Other Funds	31,804	47,790	(15,986)
Total governmental funds	<u>\$ 6,023,271</u>	<u>\$ 6,447,277</u>	<u>\$ (424,006)</u>

The fund balance of the General Fund represents 97% of the County's total combined fund balances because this is the primary operating fund of the County. The fund balance of the General Fund increased \$101,509 from the prior year. The fund balances of the Road, Jail, Sheriff, Capital Projects and Other Funds represent the surplus/(deficit) that results from current receivables over current obligations. These balances denote future transfers to and from the General Fund. The debt service fund no longer carries a fund balance due to the elimination of debt service reserve funds in the current year.

Table 6

McCracken County Revenue Comparison Governmental Funds

	Governmental Funds Revenue		
	2005	2004	Change
General Fund	\$ 11,578,110	\$ 10,884,822	\$ 693,288
Road Fund	1,409,137	1,207,189	201,948
Jail Fund	2,252,051	1,726,420	525,631
Sheriff Fund	1,248,105	1,216,102	32,003
Federal Grant Fund	723,894	239,397	484,497
Debt Service Fund	172,460	238,320	(65,860)
Capital Projects Fund	22,563	-	22,563
Other Funds	754,333	1,369,839	(615,506)
	<u>\$ 18,160,653</u>	<u>\$ 16,882,089</u>	<u>\$ 1,278,564</u>

The table above compares the revenue of each of the County's major funds and combined non-major funds to the prior year. The increase in general fund revenue is primarily attributed to combined increases in various forms of tax revenue. Occupational tax revenue increased by approximately \$327,000 from the prior year, while property taxes brought in an additional \$240,000. Road fund revenue increased due to additional rural secondary money granted from the State in the current year. As discussed at the government-wide level, jail fund revenue increased as a result of higher state prisoner reimbursements. Grant fund activity varies from year to year based on the availability of state and federal funding sources as well as the number of grantees that utilize the County as a pass-through agency to receive funding. Federal grant awards received in the current year included approximately \$600,000 in Homeland Security funds and a Community Development Block Grant in the amount of \$108,375. Decreases in revenues of other funds were a result of prior year awards accounted for in the state grant fund.

Table 7 below compares the expenditures of each of the County's major funds and combined non-major funds to the prior year.

McCracken County Expenditure Comparison Governmental Funds			
	2005	2004	Change
General Fund	\$ 6,729,231	\$ 6,486,943	\$ 242,288
Road Fund	1,833,250	1,521,745	311,505
Jail Fund	4,698,735	3,875,409	823,326
Sheriff Fund	2,159,878	1,970,070	189,808
Federal Grant Fund	725,707	229,819	495,888
Debt Service Fund	1,552,875	632,221	920,654
Capital Projects Fund	909,033	-	909,033
Other Funds	946,449	1,496,623	(550,174)
	<u>\$ 19,555,158</u>	<u>\$ 16,212,830</u>	<u>\$ 3,342,328</u>

The increase in road fund expenditures varies directly with funds granted by the State in the current year. The increase in debt service fund expenditures is attributable to the advance refunding on the courthouse addition bonds. Debt service reserve funds were expended and rolled into the proceeds of the new debt issue. Capital project expenditures increased due to the construction of a railroad spur, speculative building, and replacement of the jail's roof.

As mentioned in the government-wide analysis, the jail's operating costs increased significantly from the prior year, rising to nearly \$4.7 million dollars. Personnel costs

increased by approximately \$340,000 or 16.5% from 2004. Much of the increase in personnel costs is due to the increase in the County's match requirement for hazardous duty employees. Increases in retirement match requirements across all classifications of County employees are discussed later in this report. Expenditures for food increased by \$155,000 or 23%, and medical costs increased by \$235,000 or 70% from the prior year. Although increases in prisoner population have a direct impact on these costs, the County is searching for ways to operate more efficiently.

Similar concern for jails has risen across the state. Both the Kentucky Auditor of Public Accounts and the Governor's Office for Local Development (GOLD) have conducted surveys and performed data analysis in hopes of discovering ways jails can become more efficient. A recent compilation done by GOLD expresses the concern that revenues are not increasing at a rate sufficient to cover the rapid increase in expenditures. This is demonstrated by annual increases in transfers from the general fund required to subsidize jail operations. In 2005, jail funds across the state received 33.7% of their total receipts from transfers. In 2005, McCracken County's jail received \$2,461,333, or 52.2% of its receipts from transfers.

Table 8 McCracken County General Fund Transfers to Jail Fund FY 2001-2005			
FY	Transfers From General Fund	% of Total Jail Revenue	
2001	\$ 1,872,271	51%	
2002	\$ 2,226,700	57%	
2003	\$ 2,066,422	57%	
2004	\$ 2,085,240	55%	
2005	\$ 2,461,333	53%	

General Fund Budgetary Highlights

The Fiscal Court revises the County's budget as it becomes necessary during the fiscal year. During fiscal year 2005 two budget amendments were made to account for unanticipated capital projects. The first budget amendment accounted for \$550,000 in KACoLT proceeds, which were used to finance the construction of a railroad spur in Industrial Park West as well as the replacement of the jail's roof. The second budget amendment was made as a result of the construction of a new speculative building in Industrial Park West. The IDA had \$700,000 in note proceeds that were passed through the County, along with \$300,000 in KACoLT proceeds to finance the construction of the building.

Budget transfers were made each quarter to cover shortages on certain line items, but these transfers did not affect the total of overall budgeted expenditures.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2005, the County had \$56,032,392 in capital assets (net of depreciation) for both governmental and business-like activities. Capital assets include land and land improvements, buildings and building improvements, vehicles and equipment, and infrastructure.

During the year, the County acquired \$4,002,106 in capital assets. Major additions include: \$2,416,981 for the County's portion of the building leased to the Industrial Development Authority in Industrial Park West, \$313,331 for the new jail roof, and \$455,711 in vehicles and equipment purchased with Homeland Security grant funds.

Debt Administration. The County had \$12,714,099 of debt outstanding at June 30, 2005. This amount excludes accrued compensated absences and landfill post-closure costs. As set forth in Section 158 of the Kentucky Constitution, counties having a population of fifteen thousand or more shall not incur indebtedness in excess of 10% of the value of their taxable property. The County is well within this limitation, with its debt approximating .005% of its assessed value.

As mentioned previously in this discussion, the County issued \$6,025,000 in Revenue Refunding Bonds (2004 Series) to advance refund \$5,950,000 of outstanding 1995 Series bonds. Net proceeds of \$5,865,427, plus an additional \$563,873 of 1995 Series Debt Service Reserve Fund monies were deposited with an escrow agent to provide for all future payments on the 1995 Series bonds. The 1995 Series bonds are considered to be defeased and the liability for those bonds has been removed from the County's Statement of Net Assets. Total debt service payments over the next 22 years will be reduced by \$624,251, generating an economic gain (difference between the present values of the Debt Service payments on the old and new debt) of \$424,690.

During fiscal year 2005, the County entered into three agreements with the Kentucky Association of Counties Leasing Trust Program (KACoLT). The County borrowed \$250,000 to finance the construction of a rail spur in the Industrial Park West, \$300,000 to finance the replacement of the jail's roof, and \$300,000 for costs related to the construction of a new speculative building in Industrial Park West. All three are five-year variable rate lease with monthly principal and interest payments. The County signed inter-local agreements with the City to equally share lease payments on the rail spur and the new speculative building construction costs.

Economic Factors and Other Potentially Significant Matters

Current economic conditions indicate an alarming increase in the cost of benefits provided to County employees. Over the past ten years, the required match for hazardous duty retirement contributions has averaged around 18%. For fiscal year 2005, the rate is 22.08%, and rate set for fiscal year 2006 is 25.01%. Providing this benefit has become so costly that hazardous duty retirement match now exceeds the cost of providing health insurance to the jail and sheriff's department. While the match for non-hazardous duty

employees is significantly lower, sharp increases are also being made to these rates. The rates are 7.34%, 8.48%, and 10.98% for fiscal years 2004, 2005, and 2006 respectively. If this trend continues, it could have a significant impact on the County's ability to meet the contribution requirements.

The county's E911 center funds its operations by charging a local monthly service fee on wireline telephones. The charges for service are insufficient for charges. Accordingly the city of Paducah and the county cover the deficit with transfers based upon each agencies proportional share of the service. The Kentucky Commercial Mobile Radio Services Board (CMRS Board) administers the CMRS fund for the purpose of implementing wireless emergency 911 service through out Kentucky. The CMRS collects \$0.70 per month from each cellular phone. When the proceeds are distributed, less than \$0.35 goes back into local systems for receiving wireless calls. In McCracken County this year, more than 50% of E911 calls will originate from wireless phones. As the number of cell calls received by our E911 center increases, funding decreases, and the County is faced with the dilemma of how to fund its E911 center in the future.

Contacting the County's Financial Management

This report is designed to provide a general overview of the County's finances to our citizens, taxpayers, customers, and creditors. Any questions concerning the information provided in this report or requests for additional financial information should be directed to the Finance Office, McCracken County Courthouse, 301 S. 6th Street, Paducah, KY 42003-1700.

McCRACKEN COUNTY
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS AND RESOURCES			
Cash in bank	\$ 5,734,411	\$ 2,364	\$ 5,736,775
Accounts receivable (net):			
Taxes	3,046,997		3,046,997
Intergovernmental	1,233,271		1,233,271
Other	40,183		40,183
Due from proprietary funds	21,000		21,000
Notes receivable	255,421		255,421
Nondepreciated capital assets:			
Land	1,376,582		1,376,582
Depreciated capital assets (net):			
Buildings	17,040,856		17,040,856
Roads and infrastructure	35,976,714		35,976,714
Vehicles and Equipment		4,509	4,509
Furniture and equipment	1,633,731		1,633,731
TOTAL ASSETS AND RESOURCES	\$ 66,359,166	\$ 6,873	\$ 66,366,039
LIABILITIES			
Accounts payable	868,978	425	869,403
Due to governmental funds		21,000	21,000
Matured interest outstanding	85,322		85,322
Accrued payroll and related expenses	78,685		78,685
Deferred revenues	83,625		83,625
Long-term obligations:			
Due within one year:			
Outstanding bonds	242,819		242,819
Notes payable	197,500		197,500
Obligations under capital lease	151,200		151,200
Due beyond one year:			
Outstanding bonds	5,174,751		5,174,751
Notes payable	6,335,176		6,335,176
Obligations under capital lease	612,653		612,653
Landfill post-closure costs	2,062,500		2,062,500
Accrued compensated absences	339,735		339,735
Total Liabilities	\$ 16,232,944	\$ 21,425	\$ 16,254,369
NET ASSETS			
Invested in capital assets, net of related debt	47,826,284	4,509	47,830,793
Restricted for:			
Accrued compensated absences	339,735		339,735
Debt Service	55,176		55,176
Unrestricted	1,905,027	(19,061)	1,885,966
Total Net Assets	\$ 50,126,222	\$ (14,552)	\$ 50,111,670

The notes to the financial statements are an integral part of the financial statements.

MCCRACKEN COUNTY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary Government:							
Governmental Activities:							
General government	\$ 13,202,297	\$ 1,646,284	\$ 570,857	\$ 45,776	\$ (10,939,380)	\$	\$ (10,939,380)
Public safety	3,237,216	1,848,075	880,313		(508,828)		(508,828)
Health and sanitation	260,563	93,793	55,806		(110,964)		(110,964)
Social services	470,045		331,502		(138,543)		(138,543)
Recreation and culture	443,867	24,759			(419,108)		(419,108)
Highways and streets	1,167,155		1,417,258		250,103		250,103
Debt service	601,556				(601,556)		(601,556)
Total Governmental Activities	19,382,699	3,612,911	3,255,736	45,776	(12,468,276)		(12,468,276)
Business-type Activities:							
Jail Canteen	83,765	56,587				(27,178)	(27,178)
Total Business-type Activities	83,765	56,587				(27,178)	(27,178)
Total Primary Government	\$ 19,466,464	\$ 3,669,498	\$ 3,255,736	\$ 45,776	(12,468,276)	(27,178)	(12,495,454)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					4,678,180		4,678,180
Occupational taxes					4,591,930		4,591,930
Transient room taxes					538,361		538,361
Miscellaneous:							
Interest					120,511	18	120,529
Excess fees					649,743		649,743
Other					714,618		714,618
Total General Revenues and Transfers					11,293,343	18	11,293,361
Change in Net Assets					(1,174,933)	(27,160)	(1,202,093)
Net Assets - Beginning					51,301,155	12,608	51,313,763
Net Assets - Ending					\$ 50,126,222	\$ (14,552)	\$ 50,111,670

The notes to the financial statements are an integral part of the financial statements.

McCRACKEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	Major Funds							Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Road Fund	Jail Fund	Sheriff Fund	Federal Grant Fund	Debt Service Fund	Capital Projects Fund		
ASSETS									
Cash	\$ 5,470,070	\$	\$	\$	\$ 86,924		\$ 120,891	\$ 56,526	\$ 5,734,411
Accounts receivable (net)	3,405,487	341,047	282,175	40,183	146,638			65,706	4,281,236
Due from other funds	93,693				536				94,229
Due from proprietary fund			21,000						21,000
Total Assets	<u>\$ 8,969,250</u>	<u>\$ 341,047</u>	<u>\$ 303,175</u>	<u>\$ 40,183</u>	<u>\$ 234,098</u>	<u>\$</u>	<u>\$ 120,891</u>	<u>\$ 122,232</u>	<u>\$ 10,130,876</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 139,160	\$ 54,990	\$ 307,358	\$ 8,731	\$ 65,181		\$ 211,533	\$ 82,027	\$ 868,980
Due to other funds	536				86,642			7,051	94,229
Accrued payroll	23,845	11,962	25,992	16,886				1,350	78,685
Deferred revenues	2,982,086				82,275				3,065,711
Total Liabilities	<u>3,145,627</u>	<u>66,952</u>	<u>333,350</u>	<u>25,617</u>	<u>234,098</u>		<u>211,533</u>	<u>90,428</u>	<u>4,107,605</u>
Fund Balances:									
Reserved for:									
Debt service								55,176	55,176
Other purposes									
Unreserved	<u>5,823,623</u>	<u>274,095</u>	<u>(30,175)</u>	<u>14,566</u>			<u>(90,642)</u>	<u>(23,372)</u>	<u>5,968,095</u>
Total fund balances	<u>5,823,623</u>	<u>274,095</u>	<u>(30,175)</u>	<u>14,566</u>			<u>(90,642)</u>	<u>31,804</u>	<u>6,023,271</u>
Total Liabilities and Fund Balances	<u>\$ 8,969,250</u>	<u>\$ 341,047</u>	<u>\$ 303,175</u>	<u>\$ 40,183</u>	<u>\$ 234,098</u>	<u>\$</u>	<u>\$ 120,891</u>	<u>\$ 122,232</u>	<u>\$ 10,130,876</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets:

Total Fund Balances

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets are \$123,812,945 and the accumulated depreciation is \$67,685,238

Notes receivable are not due and receivable in the current period and therefore, are not reported as assets in the governmental funds

Deferred property taxes are not available for use under the modified accrual basis of accounting as reported in the governmental funds.

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

- Bonds outstanding
- Accrued interest on bonds
- Notes payable
- Obligations under capital lease
- Landfill post-closure costs
- Accrued compensated absences

\$ 5,417,570
85,322
6,532,673
763,853
2,062,500
339,735

(15,201,653)

Net Assets Of Governmental Activities

\$ 50,126,222

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Road Fund	Jail Fund	Sheriff Fund	Federal Grant Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues									
Taxes	\$ 9,179,967	\$ 1,183,117	\$ 270,006	\$ 7,000	723,894	171,134	22,563	\$ 215,221	\$ 9,179,967
Intergovernmental	280,771								283,706
Charges for services	1,337,758								1,337,758
Fees and fines		222,690	1,603,599	1,241,105					3,067,394
Miscellaneous	779,614	3,330	378,446			1,326		539,112	1,701,828
Total Revenues	11,578,110	1,409,137	2,252,051	1,248,105	723,894	172,460	22,563	754,333	18,160,653
Expenditures									
Current:									
General government	5,572,546	400,613	2,356,335	2,159,878			909,033	140,586	11,398,405
Public safety	671,960		2,342,400		578,848				3,733,794
Health and sanitation	229,542								229,542
Social services	122,581				146,859			517,763	787,203
Recreation and culture	132,602								132,602
Highways and streets		1,432,637							1,432,637
Debt service:									
Principal						371,147		115,000	486,147
Interest and other charges						1,181,728		173,100	1,354,828
Total Expenditures	6,729,231	1,833,250	4,698,735	2,159,878	725,707	1,552,875	909,033	946,449	19,555,158
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	4,848,879	(424,113)	(2,446,684)	(911,773)	(1,813)	(1,380,415)	(886,470)	(192,116)	(1,394,505)
Other Financing Sources (Uses):									
Note proceeds							850,000		850,000
Refunding bonds						6,025,000			6,025,000
Payment to refunded bond escrow agent						(5,904,500)			(5,904,500)
Operating transfers in	1,869,732	1,352,755	2,461,333	1,270,848	356,242	695,775	164,222	368,562	8,539,469
Operating transfers out	(6,617,102)	(842,960)		(314,153)	(354,429)		(218,394)	(192,431)	(8,539,469)
Total Other Financing Sources (Uses)	(4,747,370)	509,795	2,461,333	956,695	1,813	816,275	795,828	176,131	970,500
Net change in fund balances	101,509	85,682	14,649	44,922	(564,140)	(564,140)	(90,642)	(15,985)	(424,005)
Fund balances, July 1, 2004	5,722,114	188,413	(44,824)	(30,356)		564,140		47,789	6,447,276
FUND BALANCES, JUNE 30, 2005	\$ 5,823,623	\$ 274,095	\$ (30,175)	\$ 14,566	\$ 0	\$ 0	\$ (90,642)	\$ 31,804	\$ 6,023,271

The notes to the financial statements are an integral part of this statement.

McCRACKEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (424,005)
Capital outlays	1,586,697
Depreciation expense	(2,935,263)
Donated capital	15,233
Accrued property tax receivable	90,144
Issuance of notes receivable	275,000
Payment received on notes receivable	(19,579)
Additions to long term debt	(925,000)
Deferral of costs associated with bond issue	636,600
Amortization of deferred bond issuance costs	(29,170)
Repayment of principal on long term debt	486,147
Accrued interest on long-term debt	39,083
Accrued long-term compensated absences	<u>29,180</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (1,174,933)</u></u>

The notes to the financial statements are an integral part of this statement.

McCRACKEN COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
June 30, 2005

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 2,364
Total Current Assets	<u>2,364</u>
Noncurrent Assets:	
Capital Assets:	
Furniture and equipment	47,544
Less Accumulated Depreciation	<u>(43,035)</u>
Total Noncurrent Assets	<u>4,509</u>
Total Assets	<u><u>\$ 6,873</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 425
Due to governmental funds	<u>21,000</u>
Total Current Liabilities	<u>21,425</u>
Total Liabilities	<u>21,425</u>
Net Assets	
Investment in capital assets, net of related debt	4,509
Unrestricted	<u>(19,061)</u>
Total Net Assets	<u>(14,552)</u>
Total Liabilities and Net Assets	<u><u>\$ 6,873</u></u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen commission	\$ 56,588
Total Operating Revenues	<u>56,588</u>
Operating Expenses	
Educational and recreational	44,557
Personnel costs	28,000
Depreciation expense	9,509
Rent expense	1,492
Total Operating Expenses	<u>83,558</u>
Operating Income (Loss)	<u>(26,970)</u>
Nonoperating Revenues (Expenses)	
Interest income	18
Interest expense	<u>(208)</u>
Total Nonoperating Revenues (Expenses)	<u>(190)</u>
Change in Net Assets	(27,160)
Net Assets, July 1, 2004	<u>12,608</u>
Net Assets, June 30, 2005	<u>\$ (14,552)</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Commission earned	\$ 56,588
Personnel costs	(14,000)
Educational and recreational	(45,787)
Operating lease rental payments	(1,492)
Net cash used by operating activities	<u>(4,691)</u>
Cash Flows From Noncapital Financing Activities	
Net cash used by noncapital financing activities	<u></u>
Cash Flows From Capital and Related Financing Activities	
Interest expense	(208)
Payment under capital lease obligation	(6,722)
Net cash used by capital and related financing activities	<u>(6,930)</u>
Cash Flows From Investing Activities	
Interest earned	18
Net cash provided by investing activities	18
Net decrease in cash and cash equivalents	(11,603)
Cash and cash equivalents, July 1, 2004	<u>13,967</u>
Cash and cash equivalents, June 30, 2005	<u>\$ 2,364</u>
Reconciliation of Operating Income to Net Cash	
Used by Operating Activities	
Operating Loss	\$ (26,970)
Adjustment to Reconcile Operating	
Income To Net Cash Used	
By Operating Activities	
Decrease in Accounts Payable	(1,230)
Increase in Due to Governmental Fund	14,000
Depreciation Expense	9,509
Net Cash Used By Operating Activities	<u>\$ (4,691)</u>

The notes to the financial statements are an integral part of this statement.

McCRACKEN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

		Agency Funds					Totals June 30, 2005
		Car Rental Tax Fund	Jail Inmate Fund	Unclaimed Monies Fund	Transient Room Tax Fund	Industrial Development Authority Construction Fund	
ASSETS							
Current Assets:							
Cash and Cash Equivalents		\$ 1,203	\$ 14,506	\$ 135,301	\$ 129,085	\$ -	\$ 280,095
Total Assets		1,203	14,506	135,301	129,085	-	280,095
LIABILITIES							
Amounts Held In Custody For Others		1,203	14,506	135,301	129,085	-	280,095
Total Liabilities		\$ 1,203	\$ 14,506	\$ 135,301	\$ 129,085	\$ -	\$ 280,095

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

For financial reporting purposes, the McCracken County Fiscal Court includes the funds, agencies, boards, and entities for which the fiscal court (primary government) is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the primary government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the fiscal court is financially accountable or whose exclusion would cause the financial statements to be misleading or incomplete.

Component units may be blended or discretely presented. Blended component units are those that either provides their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Amounts related to blended component units are included as if the component unit was part of the primary government.

Blended Component Unit

The following legally separate organization provides their services exclusively to the primary government, and the fiscal court is able to impose its will on this organizations. This organization's balances and transactions are reported as though they are part of the primary government using the blended method.

McCracken County Public Properties Corporation

The McCracken County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within McCracken County's financial statements. All activities of the Public Properties Corporation are accounted for within a major (debt service) fund.

McCracken County has no discretely presented component units.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Additional – McCracken Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

The Kentucky constitution provides for election of the above officials from the geographic area constituting McCracken County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are generally characterized by their use of taxes and intergovernmental revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in government-wide financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance (unearned revenues). Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories: 1) invested in capital assets, related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-Wide Financial Statements (Continued)

A significant feature of the government-wide statement of activities is the presentation of each program's net cost. GAAP require the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting programs expenses from program revenues. Program expenses are those costs attributable to a particular function.

Program revenues are resources that derive directly from the program itself or from parties outside the government that reduce the total expense of the benefiting functional activity to arrive at the net expense of the activity. The statement of activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type.

D. Fund Financial Statements

The accompanying financial statements are structured into three fund categories including governmental funds, proprietary funds and fiduciary funds. Funds are characterized as either major or nonmajor. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are least ten percent of the corresponding total (assets, liabilities, etc.) for all funds of the category or type (governmental or enterprise funds), and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are accounted for on the modified accrual basis of accounting and focus on the flow of current financial resources. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are either collected within the current period or their collection is expected shortly after the end of the current period in time to meet current liabilities. The county generally includes those revenues to be received up to 60 days following the end of the accounting period. Revenues expected to be collected after 60 days beyond the end of the accounting period are considered unavailable and are reported as deferred revenues. Deferred revenues also include amounts received but unearned as of June 30.

In governmental funds, where the focus is on the flow of current resources, expenditures are usually recorded at the time liabilities are incurred. Exceptions are: inventories, prepayments, and acquisition of capital assets which are recorded at the time of acquisition; principal and interest on long-term debt, as well as compensated absences which are recorded as expenditures in the period payment is made.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fund Financial Statements (Continued)

Governmental Funds (Continued)

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Sheriff Fund - The primary purpose of this fund is to account for the expenses of the sheriff's department. The primary sources of revenue for this fund are reimbursements from the state and fees and fines collected. The Fiscal Court has chose to maintain these revenues and expenditures separately from the General Fund.

Federal Grant Fund - The primary purpose of this fund is to account for federal grant monies that are received and expended by the County.

Debt Service Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest of the McCracken County Public Properties Corporation.

Capital Projects Fund - The primary purpose of this fund is to account for the expenses incurred for the construction of capital assets.

The primary government also has the following nonmajor funds: Juvenile Justice Fund, State Grant Fund, Local Government Economic Assistance Fund, and Transient Room Holding Fund.

Special Revenue Funds:

The Road and Bridge Fund, Jail Fund, Sheriff Fund, Federal Grant Fund, Juvenile Justice Fund, State Grant Fund, and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Funds:

The Transient Room Holding Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds use the full accrual basis of accounting, recognizing revenues and expense when they occur, regardless of the timing of the cash flows. On the statement of revenues, expenses, and changes in net assets, the term "expenses" (not "expenditures" as in governmental funds on a modified accrual basis) describes the decrease in economic benefits and emphasizes the accrual basis of accounting.

Proprietary funds' revenues and expenses are divided into operating and nonoperating revenues and expenses. Although not specifically defined by GAAP, operating revenues and expenses are considered to be those resources gained and consumed to produce and deliver goods and services that are central to that fund's particular purpose. Other revenues and expenses are classified as nonoperating. Operating and nonoperating expense are further characterized by object (personal services, depreciation expense, etc.).

Furthermore, the government has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the government's proprietary fund has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the revenues and expenses of the Jail Canteen Fund.

**MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others which, therefore, cannot be used to support the government's own programs. This category of funds includes agency funds. The government's fiduciary funds types are described below.

Agency Funds account for monies held by the County for custodial purpose only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus. However, the agency fund uses the accrual basis of accounting when recognizing payables and receivables.

The Agency funds of McCracken County are the Car Rental Tax Fund, Unclaimed Monies Fund, Jail Inmate Fund, Transient Room Tax Fund, and the Industrial Development Construction Fund.

As discussed previously, because the fiduciary fund resources are not available to support government programs, fiduciary funds are excluded from the government-wide financial statements. Inclusion of these funds would create a misleading view of the government's position and result of activities.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents are reported at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). However, McCracken County did not have any investments as of June 30, 2005.

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Receivables (Continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Disaggregation of accounts receivable are shown in Note 3.

G. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 7 for details of interfund transactions, including receivables and payables at year-end.

H. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Fund financial statements for governmental funds expense capital assets when purchased. Such assets are recorded at historical cost, or estimated historical cost when purchased or constructed, or fair market value at the time of donation.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized.

Assets are depreciated on the straight-line basis over their estimated useful lives. The table below shows the useful life by asset type.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	20
Buildings/Building Improvements	20,000	50
Machinery and Equipment	10,000	10
Vehicles	10,000	5
Office Equipment	10,000	5
Infrastructure	20,000	15-50

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fund Equity Reserves and Designations

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and long-term receivables.

J. Deferred Revenue

Deferred revenues are treated as liabilities in the governmental funds until all requirements for revenue recognition are met.

K. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Compensated Absences

The County's policies regarding vacation time permit employees to accumulate earned but unused vacation and sick leave. Accumulated vacation leave is paid upon termination or retirement. The liability for accumulated vacation leave is recorded as long-term debt in the government-wide statements. Accumulated sick leave is not recorded due to the contingent nature of the liability. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

L. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the County is subject to various federal, state, and local laws and contractual regulations. The government-wide and fund financial statements serve as an analysis of the County's compliance with significant laws and regulations and demonstrate its stewardship over County resources.

The County complies with all federal, state, and local laws and regulations requiring the use of separate funds.

Note 3. Disaggregation of Accounts Payable and Accounts Receivable

Accounts payable of the government represents amounts owed by the county as of June 30, 2005. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent liabilities. Accounts receivable are amounts owed to the government. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Under the modified accrual basis of accounting, as used in the fund statements, amounts outstanding but owed at the end of the year may be recorded in one of two ways. If the receivable is measurable and expected to be collected within 60 days, revenue is recognized. However, if the receivable is not expected to be collected within 60 days, it is not considered to be available to liquidate the liabilities of the current period and will be reported as deferred revenue. Furthermore, unearned revenue is always reported as deferred revenue. Deferred revenue is reported as a liability until meeting the criteria for revenue recognition.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 3. Disaggregation of Accounts Payable and Accounts Receivable (Continued)

Accounts Receivable	Governmental Activities			Total
	Major Funds	Non-Major Funds	Adjustment to Full Accrual	Governmental Activities
Taxes	\$ 3,078,199		\$ 39,215	\$ 3,117,414
Excess Fees	10,700			10,700
License and Permits	334,869			334,869
Intergovernmental	591,045	65,706		656,751
Charges for Services	119,666			119,666
Miscellaneous Revenues	81,051			81,051
Total Accounts Receivable	\$ 4,215,530	\$ 65,706	\$ 39,215	\$ 4,320,451

Accounts Payable	Governmental Activities			Business-Type Activities	Total
	Major Funds	Non-Major Funds	Governmental Activities	Major Fund	Total Primary Government
General Government	\$ 277,015		\$ 277,015		\$ 277,015
Protection to Persons and Property	382,641	23,372	406,013	425	406,438
General Health and Sanitation	10,309		10,309		10,309
Social Services	59,563	58,655	118,218		118,218
Recreation and Culture	3,714		3,714		3,714
Road	53,709		53,709		53,709
Total Accounts Payable	\$ 786,951	\$ 82,027	\$ 868,978	\$ 425	\$ 869,403

Note 4. Notes Receivable

The County has a note receivable from the City of Paducah for fifty percent of a railroad spur project in the principal amount of \$125,000. Payment from the City is received monthly in conjunction with the terms of the County's lease payments for the financing of the project. Final payment is expected to be received by August 20, 2009.

The County has a note receivable from the City of Paducah for fifty percent of a speculative building project in the principal amount of \$150,000. Payment from the City is received monthly in conjunction with the terms of the County's lease payments for financing of the project. Final payment is expected to be received by July 20, 2010.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 5. Deposits

The County maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the County's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county at year-end.

	<u>Bank Balance</u>
Insured by FDIC	\$ 149,199
Collateralized with securities held by pledging depository Institution in the County's name	<u>6,386,528</u>
Total	<u><u>\$ 6,535,727</u></u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Primary Government</u>		
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 1,719,363		\$ (1,719,363) \$
Land and Land Improvements	<u>1,376,582</u>		<u>1,376,582</u>
Total Capital Assets Not Being Depreciated	<u>3,095,945</u>		<u>(1,719,363) 1,376,582</u>
Capital Assets, Being Depreciated:			
Buildings	27,927,145	2,730,312	30,657,457
Furniture and Equipment	3,992,458	956,763	(301,999) 4,647,222
Infrastructure	<u>86,716,829</u>	<u>315,031</u>	<u>87,031,860</u>
Total Capital Assets Being Depreciated	118,636,432	4,002,106	(301,999) 122,336,539

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

Less Accumulated Depreciation For:

Buildings	(13,162,451)	(454,150)		(13,616,601)
Furniture and Equipment	(3,012,194)	(303,296)	301,999	(3,013,491)
Infrastructure	(48,877,329)	(2,177,817)		(51,055,146)
Total Accumulated Depreciation	(65,051,974)	(2,935,263)	301,999	(67,685,238)
Total Capital Assets, Being Depreciated, Net	53,584,458	1,066,843		54,651,301
Governmental Activities Capital Assets, Net	<u>\$ 56,680,403</u>	<u>\$ 1,066,843</u>	<u>\$ (1,719,363)</u>	<u>\$ 56,027,883</u>

Business-Type Activities:

Capital Assets, Being Depreciated:

Vehicles & Equipment	\$ 47,544	\$	\$	\$ 47,544
Total Capital Assets Being Depreciated	47,544			47,544

Less Accumulated Depreciation For:

Vehicles & Equipment	(33,526)	(9,509)		(43,035)
Total Accumulated Depreciation	(33,526)	(9,509)		(43,035)
Total Capital Assets, Being Depreciated, Net	14,018	(9,509)		4,509
Business-Type Activities Capital Assets, Net	<u>\$ 14,018</u>	<u>\$ (9,509)</u>	<u>\$</u>	<u>\$ 4,509</u>

Depreciation expense was charged to the function of general government as follows:

Governmental Activities:

General Government-

General Fund	\$ 282,370
Road Fund	2,321,813
Jail Fund	210,999
Sheriff Fund	77,402
Federal Grant Fund	<u>42,679</u>

Total Depreciation Expense - Governmental Activities \$ 2,935,263

Business-Type Activities:

Jail Canteen	<u>\$ 9,509</u>
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Total Depreciation Expense - Business-Type Activities \$ 9,509

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 7. Interfund Transactions and Balances

Individual Fund Operating Transfers

Operating transfers during the year ended June 30, 2005, were as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 1,869,732	\$ 6,617,102
Road Fund	1,352,755	842,960
Jail Fund	2,461,333	
Sheriff Fund	1,270,848	314,153
Federal Grant Fund	356,242	354,429
Juvenile Justice Fund	123,812	
State Grant Fund	244,750	180,982
Local Government Economic Assistance Fund		11,449
Capital Projects Fund	164,222	218,394
Debt Service Fund	<u>695,775</u>	
Totals	<u>\$ 8,539,469</u>	<u>\$ 8,539,469</u>

Due To/From Balances

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Federal Grant Fund	\$ 86,642
General Fund	State Grant Fund	7,051
Federal Grant Fund	General Fund	536
Jail Fund	Jail Canteen Fund	21,000

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 8. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent. These actuarially determined rates are established and amended by the Board of Trustees of the system and were equal to the required contributions for the year. The contribution requirements and the amounts contributed to CERS were \$1,232,229, \$973,610, and \$995,923, respectively, for the years ended June 30, 2005, 2004, and 2003.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

On November 9, 1982, the McCracken County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is present in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 10. Lease Agreements

On May 18, 1999, the County entered into a lease agreement with Rape Victim Services for a building in which to conduct the activities of Rape Victim Services, Inc. The lease is for 99 years beginning in July, 1999. The lessee agreed to pay the County one dollar on or before January 1 of each year.

On February 21, 2003, the County entered into a lease agreement with the Family Service Society, Inc. for a building in which to conduct the activities of the Family Service Society, Inc. The lease is for five years beginning on February 21, 2003, and ending on February 21, 2008, or terminating on such date as the property is transferred from the McCracken County Fiscal Court to Family Service Society, Inc. The lessee agreed to pay the County one dollar on or before February 21 of each year.

On March 30, 2005, the Jail entered into an operating lease agreement with General Motors Acceptance Corporation for a truck in which to conduct the Class D's performance of litter abatement duties. Monthly payments are to be made beginning March 30, 2005, with final payment due on March 29, 2008. The jail commissary fund reflects \$1,492 in rental expense for the year ended June 30, 2005. Future payments are as follows:

Fiscal Year Ended June 30	Total Payment
2006	\$ 5,970
2007	5,970
2008	<u>4,477</u>
Totals	<u>\$ 16,417</u>

On June 1, 2004, the City of Paducah ("City") and County entered into a lease agreement with the Paducah McCracken County Industrial Development Authority. The leased property is an approximately 100,000 square foot building located in Industrial Park West. This project was financed with the City's General Obligation Public Project Bonds, Series 2004, dated June 1, 2004, and the County's issuance of a note payable to the City for fifty percent of the project in the principal amount of \$2,500,000. The lease period commenced with the issuance of the bonds and ends on August 15, 2024. Lease payments are solely derived from revenues received from a sublease and payments are expected as follows:

Fiscal Year Ended June 30	Total Payment
2006	
2007	
2008	\$ 338,162
2009	405,795
2010-2014	<u>6,053,105</u>
Totals	<u>\$ 6,797,062</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 10. Lease Agreements (Continued)

On August 20, 2004, the County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) in the amount of \$250,000. This lease was authorized for the purpose of financing the construction of a railroad spur adjacent to the Industrial Park West building described above. The City of Paducah has issued a note payable to the County for fifty percent of the project in the principal amount of \$125,000. Monthly principal and interest payments are to be made beginning September 20, 2004, with final payment due on August 20, 2009. Prior to May 1 of each fiscal year during the lease term, the County is informed of the interest rate set for the next fiscal year. Based on the rate of 4.25 percent provided for the fiscal year beginning July 1, 2005, future payments are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Payment
2006	\$ 48,273	\$ 9,538	\$ 57,811
2007	49,712	7,084	56,796
2008	51,195	4,565	55,760
2009	52,723	1,964	54,687
2010	8,939	69	9,008
Totals	<u>\$ 210,842</u>	<u>\$ 23,220</u>	<u>\$ 234,062</u>

On August 20, 2004, the County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) in the amount of \$300,000. This lease was authorized for the purpose of financing the replacement of the jail's roof. Monthly principal and interest payments are to be made beginning September 20, 2004, with the final payment due on August 20, 2009. Prior to May 1 of each fiscal year during the lease term, the County is informed of the interest rate set for the next fiscal year. Based on the rate of 4.25 percent provided for the fiscal year beginning July 1, 2005, future payments are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Payment
2006	\$ 57,927	\$ 11,453	\$ 69,380
2007	59,655	8,500	68,155
2008	61,435	5,479	66,914
2009	63,267	2,357	65,624
2011	10,727	83	10,810
Totals	<u>\$ 253,011</u>	<u>\$ 27,872</u>	<u>\$ 280,883</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 10. Lease Agreements (Continued)

On May 27, 2005, the County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) in the amount of \$300,000. This lease was authorized for the purpose of partially financing the Industrial Development Authority's construction of a new speculative building in the Industrial Park West. The City of Paducah has issued a note payable to the County for fifty percent of the project in the principal amount of \$150,000. Annual principal payments and monthly interest payments are to be made beginning July 20, 2005, with final payment due on July 20, 2010. Prior to May 1 of each fiscal year during the lease term, the County is informed of the interest rate set for the next fiscal year. Based on the rate of 4.25 percent provided for the fiscal year beginning July 1, 2005, future payments are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Payment
2006	\$ 45,000	\$ 14,595	\$ 59,595
2007	45,000	10,864	55,864
2008	50,000	8,378	58,378
2009	50,000	5,854	55,854
2010	55,000	3,105	58,105
2011	55,000	243	55,243
Totals	<u>\$ 300,000</u>	<u>\$ 43,039</u>	<u>\$ 343,039</u>

Note 11. Insurance

For the fiscal year ended June 30, 2005, McCracken County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 12. Related Organizations

County officials are also responsible for appointing the members of boards of other organizations, but the County's accountability for these organizations does not extend beyond appointing authority. The organizations listed below are notable related organizations, which have not been included in the County's report.

Paducah-McCracken County Convention Center	Hendron Fire District
Paducah-McCracken County Visitors Bureau	Concord Fire Protection District
McCracken County Extension District	McCracken County Public Library
Paducah-McCracken County Joint Sewer Agency	West McCracken Fire District
West McCracken Water/Sewer District	Hendron Water District
Paducah-McCracken County Senior Citizens Center	Lone Oak Fire District
Paducah-McCracken County Industrial Dev. Authority	Reidland-Farley Fire District

Note 13. Joint Ventures

The County participates in several separate activities that are subject to joint control in which the County maintains an ongoing financial interest and responsibility. The following is a list of joint ventures in which the County is a participant.

Paducah-McCracken County 911
McCracken and Paducah Geographic Information System
Paducah-McCracken County Telecommunications/Information

Financial information relating to these joint ventures can be obtained in the separate audit of the City of Paducah, Kentucky.

Note 14. Long-term Debt

A. General Obligation Note Payable

On June 1, 2001, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$4,645,000. The note was authorized for the purpose of financing the County's contributions to the construction of additions and renovations to the Julian Carroll Convention Center and the construction of a new Four Rivers Center for the Performing Arts and for paying necessary expenses incidental to the Projects and the issuance of the City's General Obligation Bonds (the City's Bonds), Series 2001, dated June 1, 2001, in the principal amount of \$9,290,000. The note has interest rates of 3.5% to 5% and interest payments are to be made semi-annually beginning December 1, 2001. Principal payments are to be made annually on June 1 with final payment due June 1, 2026.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 14. Long-term Debt (Continued)

A. General Obligation Note Payable (Continued)

Under the provisions of KRS 91A.392, the County is entitled to levy and collect a transient room tax in the amount of 6% for the rent of rooms by motels, motor courts, hotels, inns and similar accommodation businesses for the benefit of the Paducah-McCracken County Tourist and Convention Commission (the Bureau) and the Paducah-McCracken County Convention Corporation (the Corporation). The County has entered into a certain Interlocal Cooperation Compact (the Compact) with the City, the Bureau, and the Corporation pursuant to KRS 65.210 through 65.300 (the Interlocal Cooperation Act). Under the terms of the Compact, the parties have agreed that 33 1/3% of the Room Tax (the Pledged Tax) shall be assigned to the City and pledged to the payment of the City's Bonds. In addition, the Compact provides that the difference between the annual principal and interest requirements of the City's Bonds and the pledged tax shall be borne equally by the County, the City and the Bureau. Therefore, the principal and interest payments due on the Note from the County to the City shall each year be subject to a credit in favor of the County equal to the total of (a) the Pledged Tax, plus (b) 33 1/3% of the Overage to be paid by the Bureau, plus (c) 33 1/3% of the Overage to be paid by the City.

The future note payments shown below are the maximum that would be paid by the County in the event that the room tax levied were to be declared unconstitutional. The future payments are as follows:

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total Payment
2006	\$ 117,500	\$ 168,500	\$ 286,000
2007	122,500	163,800	286,300
2008	130,000	158,900	288,900
2009	135,000	153,700	288,700
2010	140,000	164,984	304,984
2011-2015	815,000	743,372	1,558,372
2016-2020	1,052,500	558,720	1,611,220
2021-2025	1,377,500	294,500	1,672,000
2026	322,500	16,125	338,625
Totals	<u>\$ 4,212,500</u>	<u>\$ 2,422,601</u>	<u>\$ 6,635,101</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 14. Long-term Debt (Continued)

B. General Obligation Bonds Payable

On September 27, 1995, the County sold Public Project Revenue Bonds (Court Facilities Project), Series 1995 (the Bonds) through the McCracken County, Kentucky Public Properties Corporation. The Bonds originally totaled \$7,290,000 and the proceeds were used to construct an approximately 43,000 square foot addition to the McCracken County Courthouse, to partially renovate the existing 41,000 square foot courthouse, to fund a Debt Service Reserve Fund, and to pay for the cost of issuance of the Bonds

On September 1, 2004, the McCracken County, Kentucky, Public Properties Corporation (Corporation) issued \$6,025,000 in Revenue Refunding Bonds (2004 Series) with an average interest rate of 4.082 percent to advance refund \$5,950,000 of outstanding 1995 Series bonds with an average interest rate of 5.900 percent. The net proceeds of \$5,865,427 (after payment of \$39,073 in underwrite fees, insurance, and other issuance costs), plus an additional \$563,873 of 1995 Series Debt Service Reserve Fund monies were used to purchase securities. Those securities were deposited in an irrevocable trust with Bank of New York (escrow agent) to provide for all future Debt Service payments on the 1995 Series bonds. As a result, the 1995 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets.

The Corporation advance refunded the 1995 Series bonds to reduce its total Debt Service payments over the next 22 years by \$624,251 and to obtain an economic gain (difference between the present values of the Debt Service payments on the old and new debt) of \$424,690.

The Kentucky Administrative Office of the Courts (A.O.C.) has agreed to pay 47.2%, with a maximum of \$246,800 annually to the paying agent on behalf of the Corporation as required by a Use and Sublease Agreement between the Public Properties Corporation and the A.O.C. dated September 1, 2004.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 14. Long-term Debt (Continued)

B. General Obligation Bonds Payable (Continued)

If the payment from the Sublease Agreement is not sufficient to meet the principal and interest requirements of the bonds, the Corporation is contingently liable for the Administrative Office of the Court's payments. The future payments are as follows:

Fiscal Year Ended June 30	Governmental Activities		Total Payment
	Principal	Interest	
2006	\$ 300,000	\$ 221,873	\$ 521,873
2007	310,000	212,723	522,723
2008	310,000	203,423	513,423
2009	320,000	193,973	513,973
2010	330,000	183,810	513,810
2011-2015	1,810,000	740,487	2,550,487
2016-2020	1,345,000	407,457	1,752,457
2021-2025	1,035,000	185,489	1,220,489
2026-2027	265,000	7,719	272,719
Totals	<u>\$ 6,025,000</u>	<u>\$ 2,356,954</u>	<u>\$ 8,381,954</u>

C. General Obligation Note Payable

On May 1, 2004, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$2,500,000. The note was authorized for the purpose of financing the County's contributions to the acquisition, construction and installation of an approximately 100,000 square foot building to be leased by the City and County to the Paducah McCracken Industrial Development Authority and the issuance of the City's General Obligation Public Project Bonds, Series 2004, dated June 1, 2004, in the principal amount of \$5,000,000. The note has interest rates of 2.25% to 6% and interest payments are to be made semi-annually beginning December 1, 2004. Principal payments are to be made annually on June 1 with the final payment due on June 1, 2024. The future payments are as follows:

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 14. Long-term Debt (Continued)

C. General Obligation Note Payable (Continued)

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total Payment
2006	\$ 80,000	\$ 130,590	\$ 210,590
2007	82,500	128,190	210,690
2008	87,500	125,302	212,802
2009	90,000	121,803	211,803
2010	92,500	117,753	210,253
2011-2015	542,500	513,834	1,056,334
2016-2020	712,500	346,809	1,059,309
2021-2024	732,500	113,100	845,600
Totals	<u>\$ 2,420,000</u>	<u>\$ 1,597,381</u>	<u>\$ 4,017,381</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable, net of related discounts and reacquisition costs	\$ 6,155,000	\$ 104,170	\$ 841,600	\$ 5,417,570	\$ 242,819
Landfill Post-Closure Accrued Compensated Absences	2,062,500			2,062,500	
	368,915		29,180	339,735	
Oligations Under Capital Lease		850,000	86,147	763,853	151,200
Note Payable, net of related discounts	6,827,500		294,824	6,532,676	197,500
Governmental Activities Long-Term Liabilities	<u>\$ 15,413,915</u>	<u>\$ 954,170</u>	<u>\$ 1,251,751</u>	<u>\$ 15,116,334</u>	<u>\$ 591,519</u>
Business-Type Activities:					
Financing Obligations	\$ 6,722	\$	\$ 6,722	\$	
Business-Type Activities Long-Term Liabilities	<u>\$ 6,722</u>	<u>\$</u>	<u>\$ 6,722</u>	<u>\$</u>	<u>\$ 0</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 15. Interest on Long-term Debt

Debt Service on the Statement of Activities includes \$528,722 in interest on bonds.

Note 16. Landfill Closure and Post-Closure Costs

The County landfill closed to the public on June 30, 1995. McCracken County must comply with established state and federal landfill closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2005, approval had not yet been granted. Estimated post-closure care costs total \$4,125,000 or \$125,000 per year plus 10% for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In the year ending June 30, 2001, the County entered into an inter-local agreement with the City of Paducah, Kentucky to share equally the costs for post-closure and accordingly, the County has recorded a long-term liability for 50% of the estimated closure expense (See Note 20). The City of Paducah, Kentucky reimburses the County annually for its share of closure costs incurred during the fiscal year. It is anticipated that post-closure costs will be paid out of the General Fund to the extent that funds are available with any excess costs being funded using long-term borrowing.

Note 17. Other Commitments

On December 16, 2004, the Paducah-McCracken County Industrial Development Authority Economic Development Refunding and Improvement Revenue Notes, Series 2004 were approved, with both the City of Paducah and McCracken County Fiscal Court serving as guarantors. This is a variable rate 5-year note, with quarterly interest payments only due for the first two years. After that, monthly principal and interest payments will be made. The final balloon payment is due on the sixtieth month of the note. An agency agreement was signed between the County and the Industrial Development Authority assigning the County oversight of the financial activity of this project. The balance of the note at June 30, 2005, is \$584,523.

The Industrial Development Authority has financed a total of \$700,000 for the purpose of construction of a new speculative building. The entire loan balance will be due within 60 days of the sale or lease of the facility or within six years from the date of proceeds disbursement. The City of Paducah and the McCracken County Fiscal Court will serve as guarantor for this debt. The County signed an agency agreement with the Industrial Development Authority assigning the County oversight of the financial activity of this project.

Note 18. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction.

Note 19. Related Party Transactions

The County paid Emergency Equipment Specialists, Inc., which is owned by a deputy of the Sheriff's department, \$86,696 for the installation of equipment for the Sheriff's department.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 20. Reclassification of Beginning Net Assets

Governmental Activities

In October of 2000, the County entered into an inter-local agreement with the City of Paducah, Kentucky to share equally the expenses related to the closure of the County landfill. Accordingly, a reclassification was made to the beginning fund balance as follows:

June 30, 2004, balance as previously reported	\$ 49,238,655
Net asset adjustment	<u>2,062,500</u>
JULY 1, 2004, BALANCE AS RESTATED	<u>\$ 51,301,155</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 3,340,000	\$ 3,340,000	\$ 3,876,004	\$ 536,004
Payroll	4,200,000	4,200,000	4,492,184	292,184
Payments in lieu of taxes	725,000	725,000	749,086	24,086
Total Taxes	8,265,000	8,265,000	9,117,274	852,274
Intergovernmental:				
Intergovernmental	125,000	125,000	360,997	235,997
Total Intergovernmental	125,000	125,000	360,997	235,997
Charges for services:				
County Clerk - excess fees	50,000	179,950	225,958	46,008
County Attorney - excess fees	335,000	335,000	413,372	78,372
Licenses and permits	272,000	272,000	398,323	126,323
Charges for services	100,000	100,000	229,341	129,341
Total Charges for Services	757,000	886,950	1,266,994	380,044
Miscellaneous:				
Interest	30,000	30,000	114,386	84,386
Rent	175,000	175,000	160,923	(14,077)
Other	223,000	223,000	463,880	240,880
Total Miscellaneous	428,000	428,000	739,189	311,189
Total Revenues	9,575,000	9,704,950	11,484,454	1,779,504

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures:				
General Government:				
Office of County Judge/Executive:				
Salaries:				
County Judge/Executive	\$ 83,511	\$ 88,078	\$ 88,077	\$ 1
Deputy County Judge/Executive	34,606	35,899	35,898	1
Secretary	27,297	28,317	28,316	1
Office materials and supplies	5,000	1,973	1,972	1
Office equipment	3,500			
Office of County Attorney:				
Salaries:				
County Attorney	43,404	50,669	50,669	
Assistant	36,596	38,178	38,178	
Supervisor	28,811			
Secretaries	83,901	113,360	113,360	
Child support staff	288,702	326,848	326,848	
Office supplies	100	85	84	1
Office of County Clerk:				
County Clerk salary	600	600	600	
Legal notices, recording, and court cost	50,000	40,600	40,600	
Operating Costs		129,950	129,950	
Office of County Coroner:				
Salaries:				
County Coroner	44,966	47,941	47,940	1
Deputy Coroners	16,890	17,521	17,520	
Incentive pay	3,000			
Contract labor	1,000	900	900	
Autopsies and attendant service	10,000	11,827	11,827	
Supplies and materials	2,500	1,723	1,723	
Uniforms	1,000	1,054	1,054	
Registrations, conferences, and training	2,500	2,522	2,521	1
Travel	4,500	3,897	3,896	1
Other equipment	3,000	3,573	3,572	1

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
General Government: (Continued)				
Fiscal Court:				
Commissioners:				
Salaries	\$ 59,610	\$ 61,902	\$ 61,902	\$ 0
Incentive pay	14,000	15,667	15,666	1
Advertising	8,500	10,330	10,329	1
Courthouse consultants	76,526	70,289	70,288	1
Data processing services	30,000	36,985	36,985	
Office supplies	35,000	7,164	7,163	1
Memberships	12,000	11,428	11,428	
Memberships KACO	2,500			
Postal charges	20,000	13,658	13,658	
Registrations, conferences, and training	15,000	10,170	10,169	1
Motor vehicles	180,000	195,398	195,398	
Office of Property Valuation:				
Administration:				
Statutory contribution	101,300	101,300	101,298	2
Board of assessment	500			
Office of County Treasurer:				
County Treasurer salary	40,079	40,631	40,630	1
Office materials and supplies	2,000	1,786	1,786	
Registration conferences and training	1,500	1,788	1,788	
Office equipment	2,000	413	413	
Assistant County Treasurer	2,667			
Finance officer	34,605	35,898	35,898	
Office of Tax Administrator:				
Salaries:				
Supervisor	43,539	45,165	45,164	1
Assistant supervisor	30,027	31,149	31,148	1
Clerk	23,950	24,845	24,845	
Office materials and supplies	6,500	2,991	2,990	1
Travel	1,500	6,564	6,564	
Office equipment	2,100			
Data processing development	225,000	166,917	166,917	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
General Government: (Continued)				
County Law Library:				
Law Librarian salary	\$ 1,200	\$ 1,200	\$ 1,200	
Elections:				
Board Members' fees	100	400	400	\$ 0
Per diem:				
Election officers	50,000	18,300	18,300	
Election commissioners	3,360	140	140	
Tabulators	4,800	825	825	
Per diem and fees	11,000	6,805	6,805	
Advertising	12,000			
Maintenance and repairs - voting machines	1,000	907	906	1
Polling places	3,600	1,410	1,410	
Supplies and materials	18,500	7,252	7,251	1
Printing	60,000	47,643	47,642	1
Renewals and repairs	100	907	906	1
Economic Development:				
Planning Commission salaries	2,640	4,110	4,110	
Greater Paducah Economic Development Council	200,000	208,622	208,622	
Other	250,000	326,837	326,837	
County Administrator:				
Salaries:				
County Administrator	73,930	76,691	76,691	
Office supplies	1,500	3,331	3,331	
Travel	2,000	519	519	
Office equipment	1,500	1,986	1,986	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

General Fund					Variance
				With	
				Final	
				Budget	
				Over	
				(Under)	
Budgeted Amounts		Actual			
Original	Final	Amounts			
		(Budgetary			
		Basis)			
Expenditures: (Continued)					
General Government: (Continued)					
Courthouse:					
Salaries:					
Custodial personnel	\$ 44,963	\$ 23,322	\$ 23,321	\$ 1	
Maintenance and grounds salaries	43,516	69,522	69,522		
Overtime pay	5,000	621	621		
Janitorial services	10,000				
Custodial supplies	15,000	21,239	21,238	1	
Office supplies	100				
Uniforms	3,000	2,636	2,635	1	
Renewals and repairs	85,000	70,259	70,259		
Utilities	125,000	133,675	133,675		
New equipment	50,000	5,993	5,993		
Courthouse Security:					
Salaries:					
Supervisor	41,009				
Secretary	26,895	27,900	27,900		
Security staff	125,000	108,067	108,066	1	
Equipment	5,000	226	226		
Office supplies	2,000	87	87		
Uniforms	2,000	1,033	1,032	1	
Registration, conferences and training	2,000				
Travel	2,000				
Administration:					
General services:					
Audit services	50,000	42,673	42,672	1	
Planning consultant	50,000				
Purchase Area Development					
District	7,500	7,207	7,207		
Contributions	5,700	1,500	1,500		
Insurance:					
Buildings and contents	101,200	100,091	100,090	1	
Errors and omissions	31,625	22,640	22,640		
Liability	63,250	63,962	63,962		
Fidelity & surety	2,750	1,970	1,969	1	
Professional liability	82,500	81,723	81,723		
Vehicles and equipment	146,300	141,910	141,910		

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
General Government: (Continued)				
Administration: (Continued)				
Telephone	\$ 135,000	\$ 128,337	\$ 128,370	\$ (33)
Miscellaneous	1,000	183,267	182,408	859
Fringe benefits:				
County contributions:				
Social Security	210,000	225,099	225,098	1
Retirement	150,000	242,085	242,084	1
Health insurance	266,200	1,149,962	1,149,962	
Unemployment insurance	29,000	15,596	15,596	
Workmen's compensation	55,000	104,413	104,413	
Contingent appropriations	450,000			
Total General Government	4,867,525	5,522,853	5,521,992	860
Public Safety:				
Building and Electrical Inspection				
Department:				
Salaries:				
Deputy	72,865	74,860	74,859	1
Supervisor	43,538	45,165	45,165	
Secretary	23,950	24,845	24,845	
Law enforcement	5,000	2,364	2,364	
Motor vehicle parts				
Office materials and supplies	3,800	4,830	4,830	
Registrations, conferences, and training	4,000	2,768	2,768	
Travel	7,000	4,541	4,540	1
Office equipment	2,200	1,227	1,227	
Litter abatement tech.	25,000	14,613	14,612	1
Code enforcement director	32,960	34,823	34,823	
Abatement materials and supplies	13,200	8,023	8,023	
Uniforms	350	129	129	
Travel	1,200	3,053	3,053	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
Public Safety: (Continued)				
Department of Emergency Services:				
Salaries:				
Supervisor	\$ 37,080	\$ 38,465	\$ 38,465	\$ 0
Supplies and materials	39,000	109,644	109,644	
Renewals and repairs	3,500	9,635	9,635	
Utilities	6,000	8,102	8,102	
Communication equipment	14,000	11,667	11,667	
Other equipment	12,000	7,457	7,456	1
Ambulance service:				
Emergency 911	289,000	251,915	251,914	1
Forestry Fire Protection:				
Forest resource services	1,000	992	992	
Public defender allotment	8,190	8,190	8,189	1
Total Public Safety	644,833	667,308	667,302	6
Health and Sanitation:				
Dog control:				
Dog Warden	26,526	83,748	83,748	
Temporary/part-time help	1,500			
Animal food and supplies	4,000	16,765	16,764	1
Uniforms	500	1,736	1,735	1
Motor vehicle parts	5,000	1,526	1,526	
Contributions - Humane Society	8,800	17,740	17,740	
Travel	3,000	11,797	11,796	1
Sanitary Landfill:				
Engineering services	20,000	19,748	19,747	1
Evaluation and testing	50,000	43,404	43,404	
Explosive and drilling services	10,000			
Solid waste	30,000			
Registrations, conferences, and training	1,000			
Utilities	4,000	3,270	3,270	
Soil Conservation:				
Contribution	25,000	25,000	25,000	
Total Health and Sanitation	189,326	224,734	224,730	4

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
Social Services:				
Service to indigents:				
Family service	\$ 10,000	\$ 20,432	\$ 20,431	\$ 1
Senior Citizens Program:				
Contribution	13,500	13,500	13,500	
Cemeteries and memorials:				
Pauper burials	4,000	3,600	3,600	
Transportation	12,000	12,000	12,000	
Paducah Area Transit System	45,000	70,000	70,000	
Total Social Services	84,500	119,532	119,531	1
Recreation and Culture:				
Carson Park:				
Salaries:				
Supervisor	44,052	45,698	45,697	1
Uniforms	550			
Renewals and repairs	40,000	24,208	24,208	
Equipment	9,000			
New construction	5,000			
Utilities	25,000	35,775	35,774	1
Other recreation programs:				
Contributions	55,000	16,956	16,955	1
Capital outlay	10,000	16,599	16,599	
Total Recreation and Culture	188,602	139,236	139,233	3
Total General Fund Expenditures	5,974,786	6,673,663	6,672,788	874

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	General Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues over (under) expenditures before other financing sources (uses)	\$ 3,600,214	\$ 3,031,287	\$ 4,811,666	\$ 1,780,378
Other Financing Sources (Uses):				
Transfers in			1,757,422	1,757,422
Transfers out	(5,712,409)	(5,712,409)	(6,618,747)	(906,338)
Total other financing sources (uses)	(5,712,409)	(5,712,409)	(4,861,325)	851,084
Revenues over (under) expenditures	\$ (2,112,195)	\$ (2,681,122)	\$ (49,659)	\$ 2,631,462
Fund balance, July 1, 2004	2,129,695	2,129,695	5,463,298	
FUND BALANCES, JUNE 30, 2005	\$ 17,500	\$ (551,427)	\$ 5,413,639	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Road Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues:				
Intergovernmental:				
Municipal road aid	\$ 267,000	\$ 267,000	\$ 294,071	\$ 27,071
County road aid	559,000	559,000	646,599	87,599
Road state grant	340,000	340,000	135,000	(205,000)
Total Intergovernmental	1,166,000	1,166,000	1,075,670	(90,330)
Fees and fines:				
Licenses and permits	196,000	196,000	210,236	14,236
Miscellaneous:				
Other			3,313	3,313
Total Revenues	1,362,000	1,362,000	1,289,219	(72,781)
Expenditures:				
General Government:				
Salaries:				
Road Supervisor	44,826	46,500	46,500	
Foreman	43,033	44,640	44,639	1
Office Supervisor	33,723	34,983	34,982	1
Contracts with private agencies	50,000	46,837	46,836	1
Office materials and supplies	4,000	3,074	3,074	
Registrations, conferences, and training	4,000	11,961	11,961	
Utilities	19,000	14,871	14,871	
Office equipment	3,000			
Insurance - liability	5,500			
Insurance - equipment	17,250			
Social Security	97,000	51,569	51,568	1
Retirement	80,000	59,973	59,973	
Health and dental insurance	122,000			
Workmen's compensation	75,000	89,590	89,590	
Total General Government	598,332	403,998	403,994	4

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Road Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
Highways and Streets:				
Road labor salaries	\$ 680,789	\$ 562,992	\$ 562,991	\$ 1
Overtime pay	50,000	40,893	40,893	
County road aid	540,000	273,197	273,197	
Equipment rental	10,000	9,801	9,801	
Machinery and equipment	205,000	251,342	251,341	1
Road materials	199,755	240,841	240,841	
Uniforms	15,000	11,954	11,953	1
Renewals and repairs	10,000	4,004	4,003	1
Total Highways and Streets	1,710,544	1,395,024	1,395,020	4
Total Road Fund Expenditures	2,308,876	1,799,022	1,799,014	8
Revenues over (under) expenditures before other financing sources (uses)	(946,876)	(437,022)	(509,795)	(72,773)
Other Financing Sources (Uses):				
Transfers in	946,876	946,876	1,352,755	405,879
Transfers out			(842,960)	(842,960)
Total Other Financing Sources (Uses)	946,876	946,876	509,795	(437,081)
Revenues Over (Under) Expenditures		509,854		\$ (509,854)
Fund balance, July 1, 2004				
FUND BALANCES, JUNE 30, 2005	\$ 0	\$ 509,854	\$ 0	

McCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Jail Fund			Variance With Final Budget Over Under
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues:				
Intergovernmental:				
State jail allotment	\$ 240,000	\$ 240,000	\$ 254,307	\$ 14,307
State medical allotment	115,000	115,000	15,699	(99,301)
Total Intergovernmental	355,000	355,000	270,006	(84,994)
Fees and Fines:				
Housing prisoners	800,000	800,000	1,393,101	593,101
DUI fees	19,000	19,000	16,894	(2,106)
Court costs	30,000	30,000	33,171	3,171
Jail bond acceptance fees	10,000	10,000	4,680	(5,320)
General prisoner fees	50,000	50,000	71,610	21,610
Total Fees and Fines	909,000	909,000	1,519,456	610,456
Miscellaneous:				
Telephone commissions	150,000	150,000	225,523	75,523
Work release	50,000	50,000	125,772	75,772
Other	35,000	35,000	51,173	16,173
Total Miscellaneous	235,000	235,000	402,468	167,468
Total Revenues	1,499,000	1,499,000	2,191,930	692,930
Expenditures:				
General Government:				
Office of Jailer:				
Personnel services:				
Salaries:				
Jailer	83,511	92,199	92,199	
Jail personnel	914,228	1,029,141	1,029,140	1
Medical personnel	97,555	107,157	107,156	1
Secretaries	58,599	60,787	60,786	1
Food service personnel	170,429	174,210	174,209	1
Maintenance and grounds personnel	112,916	98,046	98,045	1
Incentive pay	3,500	3,194	3,194	
Overtime pay	120,000	232,003	232,003	

McCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
 Required Supplementary Information
 For the Year Ended June 30, 2005

	Jail Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Expenditures: (Continued)				
General Government:				
Fringe benefits:				
County contributions:				
Social Security	\$ 125,000	\$ 123,092	\$ 123,092	\$
Retirement	345,000	378,704	378,703	1
Insurance	37,950			
Health insurance	470,000			
Workmen's compensation	90,000	107,508	107,508	
General services:				
Memberships	2,200	1,500	1,500	
Registrations, conferences, and training	5,000	1,848	1,847	1
Total General Government	2,635,888	2,409,389	2,409,382	7
Public Safety:				
Operations:				
Contracts with government agencies	25,000			
Maintenance:				
Building repairs	20,000	314	313	1
Equipment repairs	50,000	92,719	92,719	
Pest control	3,000	5,495	5,495	
Solid waste	2,000	52	52	
K-9 supplies	1,500	187	187	
Building and maintenance supplies	20,000	22,686	22,686	
Custodial supplies	60,000	201,877	201,877	
Food preparation and serving supplies	20,000	34,023	34,022	1
Food	600,000	787,152	787,151	1
Linens	10,000	17,248	17,247	1
Office supplies	9,000	24,409	24,409	
Personal hygiene	40,000	32,400	32,399	1
Prisoner clothing	20,000	28,570	28,570	
Uniforms	20,000	22,620	22,619	1
Routine medical	300,000	511,545	511,545	
Mental health	60,000	60,000	60,000	-
Telephone	3,000	8,981	8,980	1
Travel	2,000			
Utilities	220,000	272,746	272,745	1
Vehicle expense	5,000	15,957	15,956	1
Miscellaneous	1,000	7,208	7,207	1
Lease payments	15,000	40,595	40,595	
Communication equipment	5,000	13,476	13,475	1
Data processing equipment	10,000	14,846	14,846	
Food service equipment	10,000	27,243	27,243	
Furniture and fixtures	5,000	983	983	
Office equipment	3,000	560	560	
Total Public Safety	1,539,500	2,243,892	2,243,881	11
Total Jail Fund Expenditures	4,175,388	4,653,281	4,653,263	18

McCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
 Required Supplementary Information
 For the Year Ended June 30, 2005

	Jail Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues over (under) expenditures before other financing sources (uses)	(2,676,388)	(3,154,281)	(2,461,333)	692,948
Other Financing Sources (Uses):				
Transfers in	2,676,388	2,676,388	2,461,333	215,055
Revenues over (under) expenditures		(477,893)	\$	\$ 477,893
Fund Balances, July 1, 2004				
FUND BALANCES, JUNE 30, 2005	\$	\$ (477,893)	\$	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Sheriff Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues:				
Intergovernmental:				
Incentive pay	\$	\$	\$ 6,924	\$ 6,924
Total intergovernmental			6,924	6,924
Fees and fines:				
Sheriff fees	1,150,000	1,150,000	1,247,786	97,786
Total fees and fines	1,150,000	1,150,000	1,247,786	97,786
Miscellaneous:				
Other	3,000	3,000		(3,000)
Total Revenues	1,153,000	1,153,000	1,254,710	101,710
Expenditures:				
General Government:				
Salaries:				
Sheriff	83,511	88,078	88,077	1
Deputies	1,097,500	1,033,517	1,033,517	
Overtime pay	110,000	168,440	168,439	1
Incentive pay	117,800	109,407	109,407	
Law enforcement service fees	1,500	1,177	1,177	
Advertising tax bills	48,000	55,631	55,631	
Ammunition	2,000	102	102	
Motor vehicle parts	54,000	78,958	78,958	
Office materials and supplies	28,000	20,919	20,919	
Petroleum products	70,000	88,370	88,369	1
Uniforms	16,000	11,423	11,423	
Gun range	2,500	2,500	2,500	
Postal charges	15,000	13,479	13,478	1
Travel	15,000	6,892	6,892	
Communication equipment	12,000	12,555	12,554	1
Other equipment	15,000	10,147	28,236	(18,089)
Registrations, conferences, and training	3,500	3,086	3,086	
Fringe benefits:				
Social Security	109,034	96,239	96,239	
Retirement	311,000	300,813	300,812	1
Health insurance	258,300	2,000	1,999	1
Workmen's compensation	75,000	89,590	89,590	
Total Sheriff's Fund Expenditures	2,444,645	2,193,323	2,211,405	(18,082)
Revenues over (under) expenditures before other financing sources (uses)	\$ (1,291,645)	\$ (1,040,323)	\$ (956,695)	\$ 83,628

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Sheriff Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Other Financing Sources (Uses):				
Transfers in	1,291,645	1,291,645	1,270,848	20,797
Transfers out			(314,153)	314,153
Total other financing sources (uses)	1,291,645	1,291,645	956,695	334,950
Revenues over (under) expenditures		251,322		(251,322)
Fund balance, July 1, 2004				
FUND BALANCES, JUNE 30, 2005	\$	\$ 251,322	\$	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Federal Grant Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues:				
Intergovernmental:				
Federal reimbursements	\$ 250,000	\$ 250,000	\$ 774,234	\$ 524,234
Total Revenues	250,000	250,000	774,234	524,234
Expenditures:				
Federal Grants:				
Federal Grant Expenditures	300,000	585,592	711,725	126,133
Total Federal Grant Fund Expenditures	300,000	585,592	711,725	126,133
Revenues over (under) expenditures before other financing sources (uses)	(50,000)	(335,592)	62,509	398,101
Other Financing Sources (Uses):				
Transfers in	50,000	50,000	355,706	(305,706)
Transfers out			(369,377)	369,377
Total Other Financing Sources (Uses)	50,000	50,000	(13,671)	63,671
Revenues over (under) expenditures		(285,592)	48,838	\$ 334,430
Fund balances, July 1, 2004				
FUND BALANCES, JUNE 30, 2005	\$	\$ (285,592)	\$ 48,838	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Debt Service Fund			Variance With Final Budget Over (Under)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues:				
Intergovernmental:				
State reimbursements	\$ 225,000	\$ 225,000	\$ 171,134	\$ (53,866)
Miscellaneous:				
Interest	2,000	2,000	1,326	(674)
Total Revenues	227,000	227,000	172,460	(54,540)
Expenditures:				
Debt Service:				
Bond principal payments	205,000	205,000	287,278	(82,278)
Bond interest payments	189,000	530,572	521,769	8,803
Convention Center bond payment	65,000	61,259	61,259	
Contingent appropriations	350,000	248,425		248,425
Investment fees		37,269	682,569	(645,300)
Total debt service fund expenditures	809,000	1,082,525	1,552,875	(470,350)
Revenues over (under) expenditures before other financing sources (uses)	(582,000)	(855,525)	(1,380,415)	415,810
Other Financing Sources (Uses):				
Bond proceeds			6,025,000	(6,025,000)
Payment to escrow agent			(5,904,500)	5,904,500
Transfers in	582,000	604,564	695,775	(91,211)
Transfers out				
Total Other Financing Sources (Uses)	582,000	604,564	816,275	(211,711)
Revenues over (under) expenditures		(250,961)	(564,140)	\$ 627,521
Fund balances, July 1, 2004			564,140	
FUND BALANCES, JUNE 30, 2005	\$	\$ (250,961)	\$ 0	

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS
Required Supplementary Information
For the Year Ended June 30, 2005

	Capital Projects Fund		
	Budgeted Amounts		Variance With Final Budget Over (Under)
	Original	Final	
Revenues:			
Intergovernmental:			
Interlocal agreement		\$ 780,481	\$ 722,563
			\$ (57,918)
Total Revenues		780,481	722,563
			(57,918)
Expenditures:			
Capital Projects:			
Rail Spur Capital Outlay		250,000	250,000
Jail Roof Capital Outlay		313,331	313,331
Building Construcion		879,372	879,372
Total Capital Project Fund Expenditures		1,442,703	1,442,703
Revenues over (under) expenditures before other financing sources (uses)		(662,222)	(720,140)
			(57,918)
Other Financing Sources (Uses):			
Note proceeds		850,000	850,263
			(263)
Transfers in			164,222
			(164,222)
Transfers out		(22,564)	(173,454)
			150,890
Total Other Financing Sources (Uses)		827,436	841,031
			(13,595)
Revenues over (under) expenditures		165,214	120,891
			\$ (44,323)
Fund balances, July 1, 2004			
FUND BALANCES, JUNE 30, 2005	\$	\$ 165,214	\$ 120,891

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Office. A formal budget is not adopted for the McCracken County Public Improvement Corporation Fund and Jail Canteen Fund.

The State Local Finance Officer does not require the McCracken County Public Improvement Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**BUDGETARY RECONCILIATION TO
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - MAJOR FUNDS**

General Fund	Road Fund	Jail Fund	Sheriff Fund	Federal Grant Fund	Debt Service Fund	Capital Projects Fund
\$ 11,484,454	\$ 1,289,219	\$ 2,191,930	\$ 1,254,710	\$ 774,234	\$ 172,460	\$ 722,563
93,656	119,918	60,121	(6,605)	(50,340)		(700,000)
\$ 11,578,110	\$ 1,409,137	\$ 2,252,051	\$ 1,248,105	\$ 723,894	\$ 172,460	\$ 22,563
\$ 6,672,788	\$ 1,799,014	\$ 4,653,263	\$ 2,211,405	\$ 711,725	\$ 1,552,875	\$ 1,442,703
56,443	34,236	45,472	(51,527)	13,982		(333,670)
\$ 6,729,231	\$ 1,833,250	\$ 4,698,735	\$ 2,159,878	\$ 725,707	\$ 1,552,875	\$ 909,033

Sources/Inflows of resources

Actual amounts (budgetary basis)

Differences -- budget to GAAP:

The County budgets for revenues only to the extent they are expected to be received, rather than on the modified accrual basis.

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds

Uses/outflows of resources

Actual amounts (budgetary basis)

Differences -- budget to GAAP:

The County budgets for claims only to the extent they are expected to be paid, rather than on the modified accrual basis.

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds

MCCRACKEN COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information
JUNE 30, 2005

	Special Revenue Funds				Debt Service Fund	Total Non-Major Governmental Funds
	Juvenile Justice Fund	State Grant Fund	Local Government Economic Assistance Fund	Totals		
ASSETS						
Cash in bank	\$	\$ 1,350	\$	\$ 1,350	\$ 55,176	\$ 56,526
Accounts receivable		65,706		65,706		65,706
Due from other funds						
TOTAL ASSETS	\$	\$ 67,056	\$	\$ 67,056	\$ 55,176	\$ 122,232
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 23,372	\$ 58,655	\$	\$ 82,027	\$	\$ 82,027
Due to other funds		7,051		7,051		7,051
Deferred revenue		1,350		1,350		1,350
Total Liabilities	23,372	67,056		90,428		90,428
Fund Balances:						
Reserved for:						
Debt service					55,176	55,176
Other	(23,372)			(23,372)		(23,372)
Total Fund Balances	(23,372)			(23,372)	55,176	31,804
TOTAL LIABILITIES AND FUND BALANCES	\$ 0	\$ 67,056	\$ 0	\$ 67,056	\$ 55,176	\$ 122,232

MCCRACKEN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Debt Service Fund
	Local					
	Juvenile Justice Fund	State Grant Fund	Government Economic Assistance Fund	Total	Transient Room Holding Fund	Total Non-Major Governmental Funds
Revenues:						
Intergovernmental	\$	\$ 203,772	\$ 11,449	\$ 215,221	\$	\$ 215,221
Miscellaneous					539,112	539,112
Total Revenues		203,772	11,449	215,221	539,112	754,333
Expenditures:						
Current:						
General government						
Public safety	140,586			140,586		140,586
Social services		267,540		267,540	250,223	517,763
Debt service:						
Principal					115,000	115,000
Interest					173,100	173,100
Total Expenditures	140,586	267,540		408,126	538,323	946,449
Revenues over (under) expenditures before other financing sources (uses)	(140,586)	(63,768)	11,449	(192,905)	789	(192,116)
Other Financing Sources (Uses):						
Note proceeds						
Transfers in	123,812	244,750		368,562		368,562
Transfers out		(180,982)	(11,449)	(192,431)		(192,431)
Total Other Financing Sources (Uses)	123,812	63,768	(11,449)	176,131		176,131
Net change in fund balance	(16,774)			(16,774)	789	(15,985)
Fund balances, July 1, 2004	(6,598)			(6,598)	54,387	47,789
FUND BALANCES, JUNE 30, 2005	\$ (23,372)	\$ 0	\$ 0	\$ (23,372)	\$ 55,176	\$ 31,804

MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplemental Information

Fiscal Year Ended June 30, 2005

Section I – Summary of Auditor’s Results

1. The auditor’s report expresses an unqualified opinion on the financial statements of McCracken County.
2. There are no reportable conditions or material weaknesses relative to the audit of the financial statements reported in the Independent Auditor’s Report.
3. No instances of noncompliance material to the financial statements of McCracken County were disclosed during the audit.
4. There are no audit findings relative to the internal control over major federal award programs for McCracken County.
5. The auditor’s report on compliance for the major federal award programs for McCracken County expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for McCracken County.
7. The programs tested as major programs included:
 - A. Homeland Security Grant Program – CFDA No. 97.067
8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. McCracken County was determined to be a low-risk auditee.

Section II – Financial Statement Findings

Material Weaknesses

There were no material weaknesses related to the financial statements in fiscal year ended June 30, 2005.

Reportable Conditions

There were no reportable conditions related to the financial statements in fiscal year ended June 30, 2005.

Section III – Federal Award Findings and Questioned Costs

Material Weaknesses

There were no material weaknesses related to the Federal Awards in fiscal year ended June 30, 2005.

Reportable Conditions

There were no reportable conditions related to the Federal Awards in fiscal year ended June 30, 2005.

MCCRACKEN COUNTY
STATUS OF PRIOR YEAR AUDIT FINDINGS
Fiscal Year Ended June 30, 2005

The audit report for the year ended June 30, 2004, contained no "audit findings".

MCCRACKEN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Cash Programs:	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Homeland Security:			
Passed-through Kentucky Department of Military Affairs:			
State Domestic Preparedness Equipment Support Program			
Homeland Security Grant - Part 1	97.067	M-03138124	\$ 799
Homeland Security Grant - Part 2	97.067	M-03254738	50,171
Hazardous Material Team - Part 1	97.067	M-02312992	184,359
Hazardous Material Team - Part 3	97.067	M-03255125	139,971
Hazardous Material Team - Vehicle	97.067	M-03140340	120,000
Hazardous Material Team - Administrative	97.067	M-03255396	9,873
Hazardous Material Team	97.067	M-04600504	9,225
CERT	97.067	M-08432646	1,995
Anti-Terrorism Enhancement	97.067	M-04600450	62,455
Emergency Management Performance Grants	97.067		22,843
Total U.S. Department of Homeland Security			<u>601,691</u>
U.S. Department of Justice:			
Passed-through Kentucky Justice Cabinet:			
Title V - Delinquency Prevention Program	16.548	2001-JP-FX-0021	7,346
Title V - Delinquency Prevention Program	16.548	2002-JP-FX-0001	26,264
Direct program:			
Public Safety Partnership and Community Policing Grants	16.710	2002CMWX0064	11,514
Total U.S. Department of Justice			<u>45,124</u>
U.S. Department of Commerce:			
Passed-through Kentucky Transportation Cabinet:			
Economic Adjustment Assistance			
Industrial Park West Project	11.307	04-49-04948	3,857
U.S. Department of Housing and Urban Development:			
Passed-through Kentucky Governor's Office for Local Development			
Community Development Block Grant	14.228		108,375
U.S. Department of the Interior:			
Passed-through Kentucky Governor's Office for Local Development			
Federal Land and Water Conservation Fund	15.916		16,400
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 775,447</u>

MCCRACKEN COUNTY
NOTES TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplemental Information

Fiscal Year Ended June 30, 2005

Note 1 – Basis of Presentation

This schedule is presented on a modified accrual basis of accounting.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Danny Orazine, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

We have audited the financial statements of McCracken County, Kentucky, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

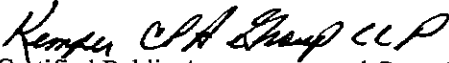
Internal Control Over Financial Reporting

In planning and performing our audit, we considered McCracken County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the Members of the McCracken County Fiscal Court of McCracken County, Kentucky in a separate letter dated October 12, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCracken County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters involving internal control over compliance and other matters which we reported to the Members of the McCracken County Fiscal Court of McCracken County, Kentucky in a separate report dated October 12, 2005.

This report is intended solely for the information and use of the Members of the McCracken County Fiscal Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants and Consultants
Paducah, Kentucky
October 12, 2005

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Danny Orazine, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

Compliance

We have audited the compliance of McCracken County, Kentucky with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major federal program for the year ended June 30, 2005. McCracken County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of McCracken County's management. Our responsibility is to express an opinion on McCracken County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCracken County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of McCracken County's compliance with those requirements.

In our opinion, McCracken County, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of McCracken County, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered McCracken County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Members of the McCracken County Fiscal Court
McCracken County, Kentucky
Page 2

This report is intended solely for the information and use of the Members of the McCracken County Fiscal Court and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kemper CPA Group LLP
Certified Public Accountants and Consultants
Paducah, Kentucky
October 12, 2005

Appendix A

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT
PROGRAMS

MCCRACKEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

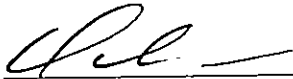
CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT
PROGRAMS

MCCRACKEN COUNTY FISCAL COURT


For The Fiscal Year Ended June 30, 2005

Appendix A

The McCracken County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer